

ORIGINAL

GRANITE MOUNTAIN WATER COMPANY



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April 22, 2010

Arizona Corporation Commission

DOCKETED

MAY - 5 2010

Honorable Judge Sarah N Harping  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, AZ 85007



Re: Reply to Staff's A.L.J. Questions dated April 19, 2010

Docket No: W-02467A-09-0333 ET AL.

W-02467A-09-0334

Judge Harping.

Please find hereafter the reply to Staff's answers to your request dated March 30, 2010.

Regards,

Matthew Lauterbach  
Water Administrator  
Granite Mountain Water Company  
(928) 717-2616

Cc: Paul D. Levie, President, Granite Mountain Water Company

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- 1) Why does Staff believe that it is appropriate to deny the line of credit?

Mr. Paul Levie, president of Granite Mountain Water Company has conceded and agrees with Staff's recommendation to deny the line of credit. When the tank is put in service and the original tank is cut down to the height of the new tank as agreed by the company with the Homeowner's Association, the company can put it on the company books and issue stock for the unapproved expenditure.

Long term loans have never been used by Granite Mountain Water Company to fund operating expenses. Maybe AZ Water Company can get loans to fund operating expenses but Granite Mountain Water Company has never (ever) been able to obtain a loan from any bank or financial institution on its own credit with its few customers and high cost of infrastructure in the granite rock and given its rate structure. Paul Levie has always been required to put up the money himself and try to get it accepted into the rate base. The Corporation Commission and Staff don't want the company to get financing from Mr. Levie in exchange for notes to Mr. Levie. It wants Mr. Levie to put up the money without prior authorization and not be permitted to pay it back so Mr. Levie will be required to take stock for what he advances to the company. The Commission and Staff would prefer that it not even go into the rate base.

- 2) How did Staff determine that the line of credit is not actually a loan and that it is actually paid-in capital? What makes it paid-in-capital as opposed to a loan?

The line of credit was borrowed by Granite Mountain Water Company explicitly for the purpose of financing a capital expenditure, a tank, etc, as shown in the financing and rate application. Suggestions to the contrary by Staff are unfounded. While the company can supply documentation and supplemental payment information (invoices, checks, etc) the company believes it is unnecessary due the mutual agreement that the line of credit be disapproved.

That may make the financial condition look favorable enough so the company could pay to have a full time operator and get a loan on its own credit. Why do all small water companies suffer? We don't mind all of the regulations, even if we don't remember to instruct the procedures to the

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company administrators. We always keep books according to the Corporation Commission's standards and provide good, clean water and good service even if we can't pay for all of the required test and other seemingly useless expenditures.

We concede to the Staff's recommendations that the line of credit be denied. We have known for some time that we need a rate increase. We have known for some time that we needed an additional tank on the hill and we have now made preparations for another exact replica of the tank we are just now completing after sixteen months.

We know that with the two performing wells and the two tanks we now have that we can provide adequately for our current customers and potential customers in the near future. We know that we will at sometime have need for an additional well. We also know that we have in reserve the rights of a grandfathered well which we can drill when the need arises. It doesn't appear from the economic prospects that such a need will arise in the immediate future, but we will be ready when it does.

We did request the line of credit from Chase Bank before Corporation Commission authorization. It was not obtained for months, until Chase had it in it's hot little hands, dollar for dollar, cash to secure the "line".

Mr. Levie realizes his bad record in failure to obtain prior approval of loans. He also realizes that the company was ordered to convert the \$210,000 and \$213,000 loans to paid-in-capital. This was not 50% debt and 50% equity or even 20% debt to 80% equity, but 100% equity. Mr. Levie has been required to take 100% equity in stock for every loan to Granite Mountain Water Company. And, now he concedes to take another \$125,000 in equity; quite a price to pay for his short memory.

Mr. Levie has made his living not from the water companies, but to support the water companies and provide water for the home owner customers to whom he has sold lots.

Granite Mountain Water Company has had an individual set of books from the start of the company, set up and kept in accordance with the Corporation Commission rules and regulations.

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There has been absolutely no commingling of funds. Every water bill collected has gone into the company books. The books have been kept by a competent bookkeeper. The bookkeeper has worked under the direction and closely with our CPA James Flether. Money has been expended properly and accounted for properly with few exceptions. These have been loans between Mr. Levie and some 20 associated companies he owns or partially owns and they have been properly documented and accounted for long term. Mr. Levie does not deal frequently with the Corporation Commission, but have dealt in good faith. He has never taken a salary for oversight and operations of the company and has never taken money from the company. Only has he loaned money to the company when it is needed for operations and /or capital improvements. The company could have never borrowed money for wells, pumps, mains, well houses or for any other purpose to provide water service to the lot buyers except it be advanced by and/or guaranteed by Mr. Levie. That he has done and not fully in accordance with Corporation Commission rules and regulations as Staff is ready and willing to point out.

Mr. Levie has had very proficient assistance over many years by his sons Daniel P. Levie and Dewey J. Levie who have been operators and managers, along with Craig Garvin and Matthew Lauterbach who have been good business managers, but did not get timely and adequate instructions from Mr. Levie.

- 3) Why did staff not recommend that the three loans from the trust be treated as paid-in-capital as well?

The company agrees with Staff that the three loans from the trust should not be considered paid-in-capital.

- 4) How did Staff treat the plant or other items that were paid for with the proceeds from the three loans and the proceeds from the line of credit?

The company has provided documentation regarding how the funds from the three loans were allocated for the company. The company can also provide documentation on request to show how the funds from the line of credit are being allocated. Staff has rightfully not considered the (50,000-gallon storage tank) being financed by the line of credit, as the tank has not been completed and

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was not functional as of December 31, 2009. The company has obtained the Arizona Department of Environmental Quality "Approval to Construct" as of February 17, 2010.

- 5) In light of the Company's apparent history of obtaining long-term financings without first obtaining Commission approval, does Staff continue to believe that its recommendations related to the line of credit and the three loans are appropriate?

The company appreciates the Commission and Staff's understanding of the personnel and training issues regarding management of the company and further appreciates that no sanctions and/or fines are being imposed at this time. Management of the company is now aware of the severity of getting prior Commission approval before seeking financing and will take the appropriate steps to advised future company administrators.

- 6) Did Staff consider the Company's history when it formulated its recommendations?

The company has not rebuttal to the Staff's response regarding this question.

- 7) What is Staff's analysis of the Company's plan to drill a replacement well within the next year?

The company appreciates Staff's support of the replacement well.

- 8) What is Staff's analysis of the easement agreement between the Company and Daniel Paul Levie?

The company's software system has the Commission's authorized tariffs installed. The company, per the easement agreement, is not charging Mr. Daniel Paul Levie for water. The company, per the easement agreement, is charging Mr. Daniel Paul Levies' current tenant at the "stables" for water at a rate of \$2.00 per 1000 gallons.

- 9) Does Staff have any recommendations related to the easement agreement?

The company contends that it is charging the customers the accurate amount for water which was approved by the Commission in the Rate Tariff Schedule. Regarding the location of the wells according the ADWR, Granite Mountain Water Company works closely with the ADWR to monitor the wells and to comply with ADWR regulations. ADWR is aware of the locations of Wells #3 and #4, as they visit the well sites annually. The company has advised ADWR of the potential discrepancy according to Staff's analysis, shown attached as Exhibit 04/22/10 #1.

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- 10) Is Staff's recommendation for the Company to hire an engineer to design the 110,000-gallon tank due to a Staff determination that there was a problem with the design of the 50,000-gallon tank? Staff stated in their response that "Based upon Staff's investigation, the new 50,000 gallon tank was not designed by a qualified, certified engineer nor was it constructed with approval from the Department of Environmental Quality."

The 50,000-gallon water storage tank was designed by Mr. Glen Lee Vortherms. Mr. Vortherms is an active Registered Professional Engineer (Civil) Certificate No. 37892. It can be noted that the retaining wall required with the construction of the tank was designed by Mr. William Joseph Carnes. Mr. Carnes is an active Registered Professional Engineer (Civil) Certificate No. 45612. Furthermore, engineering plans for both the water storage tank and the retaining well were reviewed and approved by Yavapai County.

The company's response dated April 5, 2010 to the Administrative Law Judge indicated:

*"The company's tank design engineer submitted the required paperwork to the Arizona Department of Environmental Quality in approximately October 2008 and applied for the Approval to Construct. Due to budgetary and personnel constraints at the ADEQ the time to process the application took almost a year and a half. In April of 2009 the engineer advised that we had verbal authorization from the ADEQ to begin construction after their review of the engineering plans. The ADEQ was unable to provide the official Approval to Construct until February 17, 2010"*

The "inadequate storage capacity" described by Staff in their response is believed to have been determined by Staff's Engineer Dorothy Hains. This storage capacity was considering both peak customer demand and current fire flow requirements. The company had advised and provided documentation to Staff regarding the legal fire flow variance from the Central Yavapai Fire District. The company would like the Commission to be aware that it is planning for an additional future water storage tank; although given the variance it is not required to meet the prescribed fire flow requirements. In fact the company has designed and built space for an additional 50,000-gallon tank (Tank #3) adjacent to the 50,000-gallon (Tank #2) in question.

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*Law and Business Offices of*

**Paul D. Levie**

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Prescott, Arizona 86305

Attorney At Law  
(928) 778-2600 Prescott  
(928) 778-2301 Prescott Home  
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Equestrian Development Corporation  
Granite Mountain Homesites  
Granite Mountain Water Co., Inc.  
Chino Meadows II Water Co., Inc.  
Chino Meadows Properties  
Paulden Properties  
Investment Properties

May 3, 2010

Craig Garvin prepared and had a rate application essentially ready to file based on a 2007 test year when he left the Levie Group employ in the summer of 2008. The new tank project started even before the rate application prepared by Craig Garvin. The tank project was begun by Jerry McMillan who was the business and water company manager before Craig Garvin that was in 2004 and 2005.

The Levie Group consisting of numerous entities in addition to the water companies, has had since 2004, three very good and efficient managers who have each been very conscientious and most willing to follow instructions as well as work independently.

When I asked Tim Robbins Engineering in about 2004 what I must do in engineering and permitting an additional tank on the tank easement on the Uhler Lot #50 in Granite Mountain Homesites Unit 5, he said "No big deal", give me some water company and subdivision statistics and I'll prepare the plans for approval." That I did and we began the dialog.

Mr. Lauterbach has spent hundreds of hours in correspondence answering interrogatories and providing information as well as interviews with the Corporation Commission personnel. You won't have either time or full understanding of all that is in the files so please just look at the size of the files.

After I have spent numerous hours with Mr. Lauterbach trying to give you all of the needed and desired information, I asked Mr. Lauterbach this morning to please give me our New Tank File, which he did. I have listed in Exhibit "A" herewith essentially all of the material items in that file which I would invite you to review. Probably one of the most material and interesting of the items was a simple handwritten note (among others) a notation which read "Matt, get a loan commitment from Chase Bank for the full amount of the (tank) improvement."

Despite and notwithstanding my past discomfort, pain and embarrassment in not seeking prior Corporation Commission approval by petition for financing in the past (and on more than one occasion) it did not enter my mind or remind me to instruct Mr. Lauterbach to file a petition for approval of financing before proceeding further with the tank project. I know it may be ridiculous or unbelievable, but it is true. I did not think to tell him to file a petition for financing. I had asked him to work on a rate case and I still did not remember to ask him to do the petition for financing before the rate case. The failure to get prior approval of financing is cause of many, many extra hours of work for us and also for you. I assure you it was not deliberate or intentional.

It was at a time of financial crisis not only for me, but for banks locally, nationally and internationally. I had been invited to Murphy's Restaurant for dinner by my banker from Wells Fargo who assured me first that they were willing and anxious to renew my \$500,000 home building line of credit except for a few minor conditions. First they wanted to reduce it from \$500,000 to \$400,000 if that would be okay and I nodded yes. That would be no problem and was o.k. Then they added, "the only other requirement is that you secure the loan with a \$400,000 certificate of deposit.

When Mr. Lauterbach and I then shortly thereafter went to my new bank JPMorgan Chase and the new bankers said "all we require is your personal guarantee oh and yes, we will want it backed with a \$125,000 CD or savings account". I agreed, thinking that it had by then become standard procedure and it was useless to fight it. I am sure at that time I was more interested in getting the loan from Chase and building and paying for the tank than the approval from the Corporation Commission, which I had entirely forgotten and forgotten to remind Mr. Lauterbach about.

As Mr. Lauterbach was getting ready to file the Rate Application I remembered we needed to get approval of financing for the tank, which we were upon remembering, desirous of getting into our rate base.

Sincerely,



Paul D. Levie



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May 3, 2010

Arizona Department of Water Resources  
3550 N. Central Avenue  
Phoenix, AZ 85012

Re: Locations of Wells 55-511771 and 55-554078

To whom it may concern;

On April 29, 2010 the Arizona Corporation Commission's staff indicated Granite Mountain Water Company that a search they performed indicated that Wells 55-511771 and 55-554078 belonging to the water company were not located in the location reference by your agency.

Granite Mountain Water Company is confident that ADWR is aware of the accurate locations of both wells, as well depth samples are taken annually without issue. Although, in the interest of accuracy, the company felt it important to make the ADWR aware of the ACC's finding.

Please find attached a map supplied by the ACC Staff showing where they believe that ADWR is showing the well locations verses ACC Staff's belief of the well locations. On the map you will find an "X" marking the actual locations according to the company. If GPS coordinates are needed, please advise us and we will do what is necessary to ensure that your locations are adequate for your needs.

Regards,

Matthew Lauterbach  
Water Administrator  
Granite Mountain Water Company

Exhibit 04/22/10 #1

Physical Address  
2465 Shane Drive  
Prescott, AZ 86305

Mailing Address  
PO Box 350  
Chino Valley, AZ 86323

Website: [www.GraniteMtnWater.com](http://www.GraniteMtnWater.com)  
Phone (928) 717-2616  
Fax (928) 717-2621  
Email [service@granitemtnwater.com](mailto:service@granitemtnwater.com)

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**Granite Mountain New Tank Project**

10/25/2004

Liquid Engineering brochures from Liquid Engineering Corporation regarding tank Specifications.

11/24/ 2008

Grading and Drainage Plan.

1/1/07

Report Contact of Craig with Dave Larson.

7/9/04

Telephone discussions with liquid engineering (Notes).

Photo of tank site prior to building pump house.

8/29/05

A report Tim Robbins to Jerry McMillian.

1/30/08

New reservoir plans for Granite Mountain site.

3/15/08

Memo Dave Larson for water tank.

Dated photo site plan water tank.

Un-dated drawings of three options for tank arrangement.

Dated Contour drawings for site plan measurements.

9/9/08

E-Mail Glen Vortherms to Craig e.g.: Plan alternatives.

7/8/08

Computer printout of GMWC usage Sept to August.

9/12/08

From Glen Vortherms to Craig estimates and drawings.

7/24/08

Rough general plan for inspection.

Rough letter report.

9/9/08

Glen Vortherms to Craig certificate of approval to operate water facilities at GMWC.

Exhibit A

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12/11/06

Another approval to operate dated 8/29/89.

3/15/08

Quick report engineering services \$5,700 for drawing.

3/15/08

Micro biological site sampling plan date.

Dated list of credentials for David Larson and Glen Vortherms.

10/16/08

Arizona Blue Stake Ticket.

11/10/08

Yavapai County Development Services Zoning Clearance and Building Permit.

Letter to Tony Uhler that "Plans are approved as submitted".

8/9/06

Engineering & Testing Consultants Inc. report testing soils on site.

11/21/08

Respondance re: Homeowners Association approval.

11/21/08

Communication from public works department engineering dept; this does not impact the county right of way.

1/1/08

Instruction from ADEQ engineer Glen Vortherms regarding piping.

09/28/08

About this time Matt came aboard.

11/12/09

E-Mail Glen Vortherms to Matt Lauterbach regarding ADEQ permit.

3/16/09

Matt Lauterbach to William Carnes P.E. regarding revision to retaining wall detail on construction plans.

3/24/09

Correction Notice from Yavapai County Development Services, no approved plan on site for grout inspection correct and recall.

3/19/09

Quickbook estimates on tank and amount expected to be paid for tank project.

Exhibit A

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3/20/09

Quotation on fence tubing.

4/29/08

Engineering & Testing Consultants, Inc. Moisture density relationship report, report of soil compaction.

4/3/09

Note in file to Matt Lauterbach from Paul Levie quote "get a loan commitment from Chase bank for the full amount of the improvement."

2/17/09

Copy of Yavapai County Development Services Permit for retaining Wall and Construction permit, record inspection card.

10/28/09

Yavapai County Development Services final Ok on retaining wall, will need a final on tank when it is complete.

Undated well control upgrade proposal.

11/2/09

Request for extension of build permit, construction of 50,000 thousand storage tanks.

11/13/09

E-Mail from Romo to Matt cost for parts regarding new well site.

2/17/10

ADEQ Approved plans, vicinity map, engineer notes, outer storage tank plans, general plans, site improvements and drainage plans, storage tank layout, storage tank details, certificate of approval.

2/23/10

E-Mail and instructions from David Larson regarding disinfection of tank, disinfection of pipes, new flushing and bacterial testing, and status report of items left to finish.

4/22/10

Check for final draw.

1/12/10

Quick book listing of costs, estimate \$102,897.76 paid \$85,632.75.

Exhibit A